

Summary

Farm Income Up in 1996

For farmers, particularly crop farmers, 1996 was a very good year, as reflected in farm sector income accounts. Farm sector income accounts for 1996 show that net value added by the agricultural production sector increased 25 percent (\$19 billion) from net value added in 1995. This report provides data and commentary on the income and finances of the farm sector at the national and State level, and estimates of production costs for major field crops, livestock, and dairy.

Final agricultural sector output, the value of the sector's output of commodities and services before expenses, rose \$22.5 billion in 1996, powered by a \$16.9-billion jump in the value of crop production. Higher output, generally favorable prices, and a modest 3-percent rise in intermediate consumption outlays boosted net value added. The value of final crop output rose because yields were high under favorable production conditions and because prices were exceptionally favorable in the first half of the year and remained strong right through harvest. Final livestock output also contributed, with a gain in production value of over \$4 billion between 1995 and 1996.

Operators bear most of the risks of production and marketing and reap both the losses and gains in income from unanticipated short-term changes in production and market conditions. That 1996 was a banner year for operators is reflected in the 46-percent gain in net farm income to a record \$52 billion. Weather conditions were nearly ideal in most regions of the country, leading to record yields for many crops. International demand for U.S. animal and crop products was strong, generating a high level of exports, which in turn provided support to prices received by farmers.

The total value of 1996 crop sales was up 17 percent. In volume, feed crops were the predominant contributors, but sales of food grains rose 11 percent and oil crop sales were up 15 percent, as low international stocks drove soybean prices higher just as U.S. production soared. In 1996, \$4 billion worth of crop production went to rebuild inventories depleted by a comparable amount at the end of 1995. In meat animals, rising hog prices were offset by declining beef prices. However, sales of poultry and dairy products soared.

Production expenses in 1996 were up \$7 billion from 1995. Major areas of increased expenses were feed, seed, pesticides, and rent. Net cash income, which reflects only cash sales and expenses for the accounting year, was up by \$8.7 billion. As a cash income indicator, net cash income does not reflect the \$4-billion addition to inventories for later disposition.

Direct government payments in 1996 were up a meager \$32 million (0.4 percent) from those of 1995, when payments were the lowest since 1982. Beginning in 1996, farm programs changed markedly with implementation of the 1996 Farm Act. Because production flexibility contracts are not related to market prices, government payments were made at the same time market prices were high.

Farm Sector Financial Conditions Remain Strong

Farm sector financial conditions remained strong in 1996. The debt-asset ratio for U.S. farmers as a group was 15.1, indicating that the value of assets was seven times higher than the value of outstanding debt.

The value of farmers' equity has risen consistently in recent years, having soared 55 percent since 1986. Equity was up 24 percent between 1990 and 1996, and rose over 5 percent in 1996. The value of assets reached another milestone in 1996: For the first time they exceeded \$1 trillion. Various measures of the farm debt burden indicate that it is rising, which is always a matter of concern, but it is not threatening to the sector's financial condition. Assets, debt, and equity have risen 5 percent, 3.4 percent, and 5.3 percent since 1995, and 22 percent, 4.6 percent, and 24 percent since 1991. For the decade of 1986-96, assets and equity rose 43 percent and 55 percent, respectively, while debt declined slightly (-0.5 percent).

Grain Crop Returns Higher in 1996, Acreage Smaller

Costs and returns estimates show that higher 1996 prices led to higher returns for corn, wheat, and rice, despite lower yields and higher expenses. Average barley returns above cash costs in 1996 were nearly double those of 1994. However, a decline in the value of soybean production, along with higher costs,

caused returns above total economic costs to fall about \$2-\$4 per acre between 1994 and 1996. Peanut and cotton returns were also down for 1996. Acreage planted to major crops tended to fall between 1994 and 1996, with the exception of durum wheat, soybeans, and cotton. Total U.S. planted acreage declined 1.7 percent. In response to favorable prices, cotton acreage has dramatically increased in the Southeast in recent years.

Crop prices received by farmers in 1996 were up an average of 6.7 percent from those of 1995, but average livestock prices were down 3.2 percent. Returns to market hogs increased due to more favorable prices. However, feeder pig prices did not follow the upturn in market hog prices, and returns to feeder pig production were down. As beef production increased and more beef moved through the market, cattle prices declined. Consequently, returns above total economic costs for beef producers declined in 1996.